

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of)

Federal-State Joint Board
on Universal Service)

CC Docket No. 96-45

Forward-Looking Mechanism
For High Cost Support for
Non-Rural LECs)

CC Docket No. 97-160

JUL 23 1999

COMMENTS
OF
ALIAN T COMMUNICATIONS CO.

Aliant Communications Co. ("Aliant"),¹ by its attorneys, respectfully submits its comments in the above captioned proceedings², as requested by the Commission in its Further Notice of Proposed Rulemaking.³ These comments address input values proposed for use in the "synthesis" model. In order to facilitate the Commission's consideration of these comments, Aliant references the particular sections of the Commission's Further Notice of Proposed Rulemaking to which they relate.

I. Comments on the Estimation of Forward-Looking Economic Cost

Selecting Forward-Looking Input Values

Aliant supports the development of company-specific costs. Chairman William E. Kennard's suggestion that cost inputs be adopted which, "... will vary from LEC to

¹ Aliant Communications Co. has recently been acquired by ALLTEL Corporation.

² See Federal-State Joint Board on Universal Service, CC Docket No. 96-45, 12 FCC Rcd 8776 (1997) ("Universal Service Order") and Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket No. 97-160, 12 FCC Rcd 18514 (1997).

³ See *Further Notice of Proposed Rulemaking*, CC Docket Nos. 96-45, 97-160, FCC99-120, released May 28, 1999.

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LEC and from region to region.”⁴ is a step in this direction. However, Aliant takes exception to the current Commission recommendation to use, “. . . nationwide averages, rather than company-specific values, to mitigate the rewards to less efficient companies.”⁵ This statement ignores the classic economic principle of economies of scale.

The long-run average cost of production will vary depending on the total production of the firm, in this case the LEC. However, this does not mean that smaller LECs are less efficient given the size of the market that they serve. It only means that the scale of their operations does not support the lowest cost point on the long-run average cost curve. If the Commission intends to structure universal service support so that it only compensates companies for universal service provided at the lowest point on the long-run average cost curve, it will be encouraging less competition in the LEC industry. This is due to the fact that smaller carriers may be forced to merge with larger carriers if they are not be compensated for their costs, thus reducing the number of LECs and increasing the size of the remaining LECs.

II. Comments on Expenses

Converting Expenses to 1999 Values

The Commission proposes using a 6.0 percent productivity factor to bring forward the 1996 data used to estimate common support service expenses. The use of the productivity factor for this purpose is inappropriate for several reasons. First, the fact that some companies which could have elected to participate in price cap declined to elect that form of regulation indicates the productivity factor was too high for the companies to

⁴ See *FCC News*, Statement By Chairman William E. Kennard On Referral Of Issues To The Federal-State Joint Board On Universal Service, July 17, 1998.

achieve a reasonable return on investment. Second, while the productivity factor was developed to measure industry-wide productivity across all services, there may be significant variation in the productivity of individual services. The reduction of access rates and the corresponding reduction in interstate toll rates have caused interstate access demand to grow at a much greater rate than the demand for local service. This is especially true for Aliant, which is not experiencing the population growth rates and thus the growth in demand for local service associated with more urbanized areas. Thus, the productivity rate for services with demand that is increasing at a greater rate such as access is likely to be higher than the productivity associated with services for which the demand is experiencing a lesser growth rate, such as local service.

I. Conclusion

It is Aliant's position that company-specific costs should be used to determine universal service subsidies. Aliant does not think that the productivity factor developed for use in interstate price-cap access filings is appropriate for use in adjusting common service support expenses.

⁵ See *Further Notice of Proposed Rulemaking*, at para. 21.

Respectfully submitted,

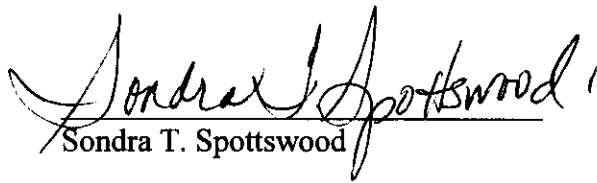
Aliant Communications Co.

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Dated: July 23, 1999

CERTIFICATE OF SERVICE

I, Sondra Spottswood, do certify that I have on this 23rd day of July 1999 caused a copy of the foregoing Comments of Aliant Communications Co. to be served by first-class U.S. mail, postage prepaid, to the persons on the attached service list, unless otherwise noted.


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